85-0767/

NEWFOUNDLAND
LIQUOR
CORPORATION

Honourable Dr. J.F. Collins, F.R.C.P. (E)
Minister of Finance
Government of Newfoundland & Labrador
Confederation Building
St. John's, Newfoundland

Dear Mr. Minister:

I am pleased to submit the 10th annual report of the Newfoundland Liquor Corporation.

The report summarizes the Corporation's activities during the fiscal year ending March 31, 1983 and outlines a financial comparison with the previous year.

We gratefully acknowledge the contribution of all the Corporation's employees whose positive efforts contributed to our progress during the past year.

Yours very truly,

DOUGLAS M. CHAFE, R.I.A.,
President.

P. O. BOX 8750, STATION "A", KENMOUNT ROAD, ST. JOHN'S, NEWFOUNDLAND A1B 3V1 • TELEPHONE (709) 754-1100

The financial performance of the Corporation during 1982-83 was reflective of the tight economic conditions in the province which resulted in a decrease in spirit sales volumes. These conditions necessitated the implementation of a revised sales forecasting and monitoring approach and stringent cost controls for operating and administrative as well as capital expenditures.

For the fiscal year ended March 31, 1983, the Corporation realized a net income of $60,459,460, an increase of $8,270,756 over the previous year. This income was derived from two sources:

1. $32,472,604 from sale of spirits, wine and beer through Corporation liquor stores and liquor agency stores, and,
2. $27,986,856 through the collection of a Corporation mark-up on beer.

Corporation liquor store and agency store operations resulted in sales of $76,483,485, an increase of $7,385,817 over the previous year. Income from beer commissions totalled $27,986,856, an increase of $5,030,233 over the previous year. Operating and administrative expenses for 1982-83 totalled $10,713,285, an increase of $1,502,037 over the previous year.

The Internal Audit Department, in addition to meeting day to day plans and objectives, received training by a national accounting firm on a new audit approach, System Evaluation Approach, Documentation of Controls. The training was successful and application within the Corporation exceeded expectations. Full implementation of this approach will broaden audit's coverage and further enhance its objective of promoting a more effective and efficient operation throughout the Corporation.

The objective set last year of a 15% increase output by the bottling plant was achieved. Growth was the result of securing a franchise bottling contract for Fernandes White and Amber Rums with distribution rights for Canada, and continued sales increases of Cockspur rums to other provinces.

In order to be prepared to process additional contracts and increased volumes next year, plant equipment has been upgraded in efficiency to handle the increased production requirements. The Corporation now has the capability to produce the most up-to-date glass packaging in a variety of bottle sizes with a wide selection of labels and types of closures. The addition of a bottling line for miniature (50 ml) bottles has permitted the Corporation to offer consumers an extensive line of products in this size, which made a significant contribution to revenue this year.

Production and distribution of franchise brands and the Corporation's own brands, which are sold in Newfoundland and Labrador and most other Canadian provinces, continues to add to the overall profit of the Corporation. This represents a significant turn around from the loss position which existed in 1977 for the bottling plant. Efforts to attract additional bottling contracts are ongoing.

During the year, the volume of cases handled by the Corporation's central warehouse declined and the reduced through-put enabled both overtime and temporary costs to be reduced.

The Corporation continued its program of upgrading its retail facilities through major renovations and improvements to the stores at Clarenville, Kenmount Road, Placentia, and Stephenville. In addition to extensions to the St. John's Licensee Store and the Deer Lake Store to allow these outlets to better service their customers, the program of conversion of conventional stores was completed when Bell Island was made self-service.

New stores at Marystown and Elizabeth Avenue, St. John's, allowed the incorporation of modern merchandizing and product handling techniques in those branches. Reaction to product selection, brand identification, and store layout and decor has been very positive, and both stores are capable of handling future sales growth.

Standardized year-round hours of opening for all Corporation stores was implemented during the year and an experiment with extended hours for Corner Brook stores was conducted. The results of this test will be evaluated and its application to other areas considered.

Training seminars for all store managers and assistants ensured continued procedural efficiency and provided opportunities for on-going communication between stores and head office. The expertise of other provincial liquor boards and of the business and legal communities in this province was utilized in training store management in store security matters and in updating the security section for the store procedures manual.

Five new managers appointed during the year were given extensive individualized training and orientation in all aspects of Corporation procedures and policies. Wine seminars for store staff and for the general public were well received, with a special series of lectures by the Director of Education of the German Wine Institute generating considerable interest and media coverage.

A supplier in-store display program has proven very successful in promoting the sale of selected products and in introducing new products to the marketplace, at minimal cost to the Corporation. Seasonal and special-occasion displays, as well as local product promotions, have had positive results and have increased the involvement of store staff in Corporation sales activities. The miniature bottle for spirits was widely introduced and has been successful in producing additional revenue.

The Royal Order of Screechers program has proven very popular with individual tourists and with convention organizers and has provided sales and public relations benefits to the Corporation.

The Collective Agreement between the Corporation and the Newfoundland Association of Public Employees expired on March 31, 1982 and a new one was signed on January 13, 1983. Wage adjustments followed the Provincial Government's guidelines. The contract term is for three years with a wage reopener after two years.

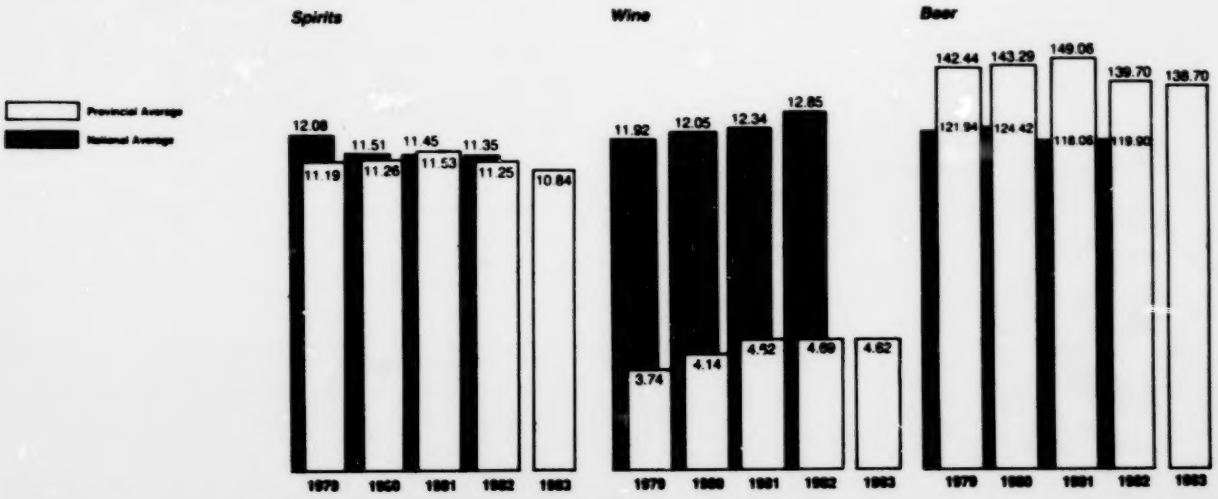
The development and refinement of Corporate Personnel and Administrative policies continued with several policies being approved during the year. This is in line with the Corporation's desire to consolidate and streamline its policies and procedures.

Training and development in all areas of the Corporation continues to be of particular benefit as employee qualifications continue to be upgraded with both financial and moral support provided. This has resulted in better qualified internal applicants for all positions advertised. Increased internal promotions has resulted in improved employee morale.

The high morale level within the Corporation generally has proven to be an invaluable aid to the Corporation in achieving its aims. The Corporation is grateful to its employees at all levels for their continuation of high levels of motivation and to the Board of Directors of the Corporation for their support and advice.

Per capita consumption

Litres
Fiscal year ended March 31, 1983
By population 19 years of age and over



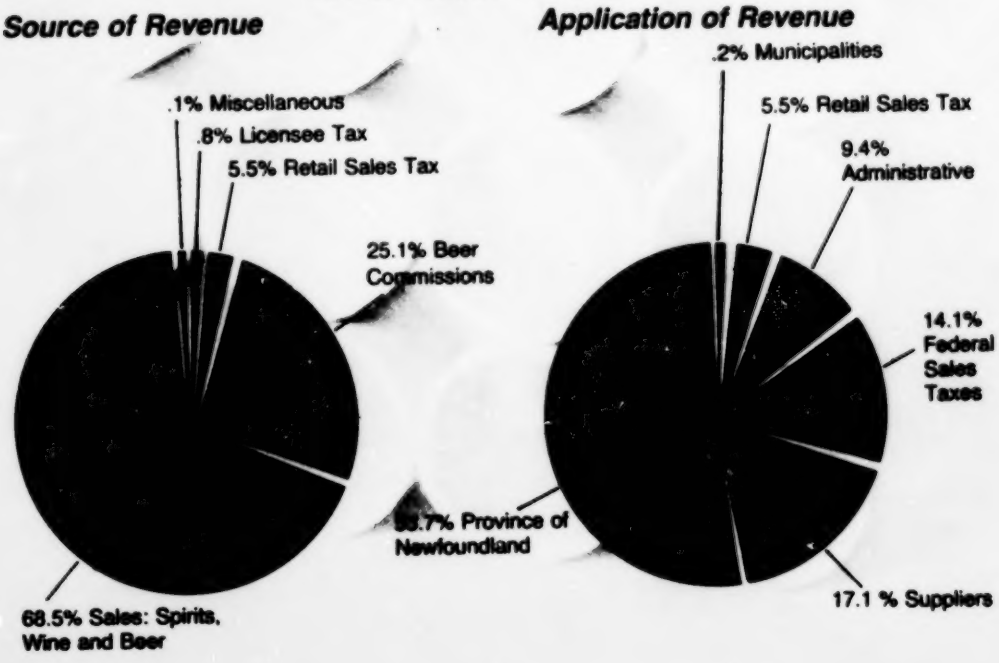
Statement of Changes in Financial Position

Year Ended March 31, 1983

	1983	1982
Funds provided:		
From operations		
Net profit from liquor store operations	**$32,472,604**	$29,232,081
Commission revenue on sales of local beer	**27,986,856**	22,956,623
Add (deduct) items not resulting in an inflow or outflow of funds:		
Depreciation	**313,827**	225,621
Amortization	**507,249**	227,722
Loss (gain) on disposal of fixed assets	**17**	(1,115)
	61,280,553	52,640,932
Proceeds from disposal of fixed assets	**267**	921
Proceeds from bank loan	**2,000,000**	–
	63,280,820	52,641,853
Funds applied:		
Payments to the Province of Newfoundland	**60,000,000**	52,500,000
Additions to fixed assets:		
Building and land	**328,845**	695,500
Equipment & furniture	**401,318**	156,542
Leasehold improvements	**444,531**	220,190
Other assets	**–**	33,925
	61,174,694	53,606,157
Increase (decrease) in working capital	**2,106,126**	(964,304)
Working capital, beginning of year	**7,196,937**	8,161,241
Working capital, end of year	**$ 9,303,063**	$ 7,196,937

See accompanying notes

FISCAL YEAR 1982-83



Statement of Income and Retained Earnings

Year Ended March 31, 1983

	1983	%	1982	%
Sales	$76,572,047		$69,158,443	
Less: Returned sales	88,562		60,775	
Net sales	76,483,485	100	69,097,668	100
Cost of goods sold:				
Inventory - beginning	8,748,042		8,274,817	
Purchases	35,784,684		32,125,472	
Cost of goods available for sale	44,532,726		40,400,289	
Less inventory - ending	10,174,069		8,748,042	
	34,358,657	44.9	31,652,247	45.8
Gross profit on sales	42,124,828	55.1	37,445,421	54.2
Expenses:				
Administrative and operating (Schedule 1)	10,713,285	14.0	9,211,248	13.3
	31,411,543	41.1	28,234,173	40.9
Other operating income				
Commission on licensee purchases	908,815		851,652	
Commission on duty free sales	39,564		32,597	
Used container sales	28,380		15,597	
Interest income	58,695		70,305	
Rental income	13,000		10,600	
Miscellaneous	12,607		17,157	
	1,061,061		997,908	
Net profit from liquor store operations	32,472,604		29,232,081	
Commission revenue on sale of beer	27,986,856		22,956,623	
Net income from total operations	60,459,460		52,188,704	
Retained earnings:				
Beginning of year	9,644,723		9,956,019	
	70,104,183		62,144,723	
Payments to the Province of Newfoundland	60,000,000		52,500,000	
Retained earnings: end of year	$10,104,183		$ 9,644,723	

See accompanying notes

Administrative & Operating Expenses

Year Ended March 31, 1983

	1983		1982
Salaries and employee benefits	$ 6,028,696		$ 5,288,484
Rent	516,376		521,071
Freight to stores	313,510		240,737
Agency store commissions and expenses	1,221,718		1,089,682
Municipal and school tax	170,581		134,441
Travelling	96,197		82,766
Heat and light	229,852		185,311
Cleaning	142,842		121,681
Telephone and telegraph	114,755		102,905
Advertising	15,236		17,705
Computer Services	160,120		195,040
Directors' fees and expenses	3,225		2,680
Interest and bank charges	51,110		45,238
Motor vehicle expenses	4,982		3,767
Consultants' fees	13,233		3,550
Store expenses:			
Store security	$ 47,952	$ 36,448	
Store supplies and wrapping	88,218	81,459	
	136,170		117,907
Office expenses:			
Stationery and office supplies	97,272	77,588	
Postage	23,438	19,237	
	120,710		96,825
Repairs and maintenance:			
Repairs and maintenance	237,709	179,539	
Ground maintenance and snow clearing	38,209	38,079	
	275,918		217,618
Inventory breakage and shortage:			
Branch and warehouse breakage	29,257	32,018	
Branch and warehouse shortage	85,404	68,985	
	114,661		101,003
Marketing expenses	112,103		72,918
Dues and subscriptions	9,363		7,477
Insurance	18,464		19,328
Professional and legal fees	8,330		11,001
Depreciation	218,529		182,528
Amortization	502,249		227,722
Uniforms	51,722		40,245
Staff recruiting	26,806		26,998
Staff training	44,422		36,017
Miscellaneous	12,146		16,480
Labour negotiations and grievance	1,656		3,055
Loss (gain) on disposal of fixed assets	17		(1,115)
Bad debts expense (recovery)	(18,214)		183
	$10,713,285		$ 9,211,248

See accompanying notes

Balance Sheet, March 31, 1983

Assets

	1983	1982
Current assets		
Cash	$ 1,354,158	$ 847,114
Accounts receivable		
Trade	257,200	155,260
Claims	48,652	107,886
Other	48,360	6,266
	354,212	269,412
Less: Allowance for doubtful accounts	2,816	29,342
	351,396	240,070
Beer commissions receivable	2,925,915	1,931,354
Inventories Note 1(a))		
Raw materials	404,958	531,643
Head office inventory (Note 1(e))	4,004,919	3,605,159
Branch stores inventory	2,718,634	2,603,418
Stock in transit	883,030	939,464
Finished goods	2,162,528	1,068,358
	10,174,069	8,748,042
Prepaid expenses	103,324	142,200
Total current assets	14,908,862	11,908,780
Fixed assets (Note 1(b))		
Buildings and land	2,243,690	1,914,845
Store equipment & fixtures	566,896	491,739
Motor vehicle	7,262	7,262
Office furniture & equipment	303,305	269,531
Plant and warehouse equipment	807,750	524,892
	3,828,903	3,208,269
Less: Accumulated depreciation	1,643,951	1,339,369
	2,284,952	1,868,900
Leasehold improvements (Note 1(c))	1,624,588	1,180,057
Less: Accumulated amortization	1,340,750	841,798
	283,838	338,259
Total fixed assets	2,568,790	2,207,159
Other assets		
Interest on leased land (Note 1(d) & 2)	248,925	248,925
Less: Accumulated amortization	16,595	8,298
Total other assets	232,330	240,627
Total assets	[illegible]709,982	$14,356,566

Liabilities and Retained Earnings

	1983	1982
Current liabilities:		
Accounts payable	**$ 2,609,461**	$ 2,612,726
Accrued liabilities (Note 1(e))	**2,996,338**	2,099,117
Total current liabilities	**5,605,799**	4,711,843
Long-term debt		
Loan payable (Note 5)	**2,000,000**	–
Total long-term debt	**2,000,000**	–
Total liabilities	**7,605,799**	4,711,843
Retained earnings		
Due to Province of Newfoundland	**10,104,183**	9,644,723
Total liabilities and retained earnings	**$17,709,982**	$14,356,566

See accompanying notes

Signed on behalf of the Board

President

Director

Auditor's Report

To the Chairman and Members
Newfoundland Liquor Corporation
St. John's, Newfoundland

I have examined the balance sheet of the Newfoundland Liquor Corporation as at 31 March 1983 and the statements of income and retained earnings and changes in financial position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at 31 March 1983 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

J.F. McGrath, C.A.

St. John's, Newfoundland
26 August 1983

J.F. McGrath, C.A.
Auditor General

1. Accounting policies:

(a) Inventories are recorded at the lower of cost or net realizable value.

(b) Fixed assets are capitalized at cost at the time of acquisition. Depreciation is recorded over the expected useful life of the asset on the straight line basis as follows:

Buildings	20 years
Store equipment & fixtures	5 years
Motor Vehicle	3 years
Office furniture & equipment	5 and 10 years
Plant & warehouse equipment	3 and 5 years

A full year's depreciation is recorded in the year of acquisition while no depreciation is taken on assets disposed of during the year.

The Blending Department's share of depreciation expense amounting to $97,298 ($43,092 in 1982) is allocated to cost of goods sold.

(c) Leasehold improvements are amortized on a straight line basis over the terms of the individual leases which range from 1 to 20 years.

The Blending Department's share of amortization expense amounting to $5,000 is allocated to cost of goods sold.

Following is a comparative schedule of leasehold amortization:

	1983	1982
Head office	$ 366,069	$ 133,806
Other locations	132,883	85,618
	$ 498,952	$ 219,424

(d) Interest in leased land as described in Note 2 is amortized on a straight line basis over the initial 30 year term. The amount charged to operations in 1982 and 1983 was $8,297.

(e) Federal taxes on inventory held in bond at year end are included in head office inventory and related liability accounts. As at 31 March the following amounts were included in accrued liabilities:

	1983	1982
Customs duty	$1,753,373	$1,019,514
Excise duty	636,382	563,195
Federal sales tax	267,871	144,153
	$2,657,626	$1,726,862

2. Interest in leased land:
This consists of the cost of leasehold land at Elizabeth Avenue as follows:

	1983	1982
Acquisition cost	$ 215,000	$ 215,000
Open space assessment	33,925	33,925
	$ 248,925	$ 248,925

The land is leased over an initial 30 year period at an annual rental of $4,800 with options to renew for an additional 140 years.

3. Related Party transactions:

(a) The Corporation is leasing office and warehouse space rent free from a Crown Corporation, Board of Liquor Control Building Corporation; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

(b) The Corporation is leasing retail space for its Bell Island branch rent free from the Department of Public Works; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

(c) The Corporation is leasing a building located in St. John's on Water Street rent free from the Department of Public Works; however, all operating and maintenance costs related to the building are the responsibility of the Corporation.

4. Lease Commitments:
The Corporation has 25 leases on file with terms ranging from 1 to 20 years covering retail outlets. Annual lease obligations during the next 5 years are as follows:

Year ended 31 March 1984	$ 452,376
Year ended 31 March 1985	410,073
Year ended 31 March 1986	354,059
Year ended 31 March 1987	297,784
Year ended 31 March 1988	236,836
	$1,751,128

5. **Long-term debt:**

	1983	1982
Long-term debt consists of an unsecured Bank of Montreal temporary loan bearing interest at prime and payable from the proceeds of 12⅛% debenture issued to the National Trust Company as Trustee for Prudential Insurance Company of America on 30 June 1983. The debenture is repayable in ten equal consecutive annual principal instalments of $200,000 commencing on 30 June 1984 and semiannual interest payments on 30 June and 30 December, commencing 30 December 1983. The debenture is guaranteed unconditionally as to principal and interest by the Province of Newfoundland.	**$2,000,000**	$ -

6. The Public Service (Pensions) (Newfoundland Liquor Corporation) Regulations, 1974, made the Corporation and its staff subject to the Public Service (Pensions) Act with effect from 26 June 1973. Pension dues deducted from employees' salaries, are matched by the Corporation, and then remitted to the Government of Newfoundland (as of 1 July 1980 the Pooled Pension Fund) from which pensions will be paid to employees when they retire.

BOARD OF DIRECTORS

Douglas M. Chafe, R. I. A.
President

Frederick W. Russell, C.M., LL.D.
Director

Dorothy Robbins, B.A.
Director

David Norris, B. Comm., M.B.A.
Director
(Representing Government of Newfoundland, Department of Finance)

Peter F. Kennedy, B. Comm.
Director
(Representing Government of Newfoundland, Treasury Board)

Cyril Banikhin
Director
(Chairman, Newfoundland Liquor Licensing Board)

Charles W. White, B. Comm., LL.B.
Director